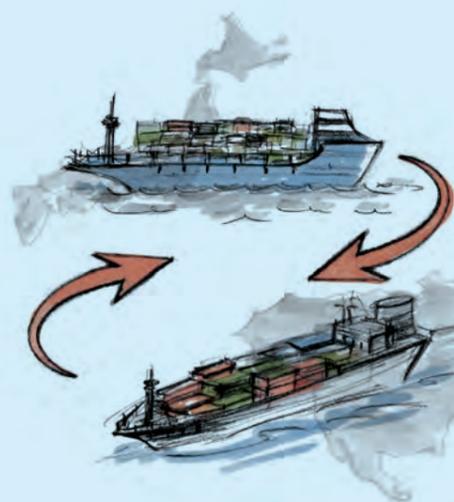


Why is the “WTO” important for Japan?

Free trade is our slogan!

The World Trade Organization (WTO) has 160 Member countries from around the world. The activities of the WTO have a great impact on Japan. How was this international organization that supports the principles of free trade established, what roles has the organization played until now, and what does the organization plan to do for the future?



1 Why was the WTO established?

After World War II, the Allied Powers established an international economic system called the Bretton Woods System. The International Monetary Fund (IMF), the World Bank, and the General Agreement on Tariffs and Trade (GATT) were the pillars of the System. In 1995, GATT was expansively reorganized to form the WTO.

2 How many countries are Members?

In 1948, when GATT came into force, 18 countries were Members. In 1955, when Japan joined, the number of Member countries was 34, and now, it has increased to 160 including the major trading partners of Japan such as the U.S., China, and the EU. The number of Members continues to increase.



3 What roles does the WTO specifically play?

The WTO has three main functions. The first, its negotiating function, includes not only multilateral trade negotiations known as Rounds, but also plurilateral negotiations on individual rules and fields. The second primary function is dispute settlement, which examines trade disputes in accordance with specified procedures. This is effective in preventing trade disputes from becoming political issues. The third is the monitoring function, which prevents protectionist measures.



4 What is currently under negotiation?

Currently, the 9th (counting Rounds held during the GATT era) multilateral negotiations, the Doha Round, is in progress. Further liberalization, reinforcement of discipline, and the like are being advanced in fields including agriculture, NAMA (Non-Agricultural Market Access), services, trade facilitation, and development. Among these, the Trade Facilitation Agreement, which defines the simplification and acceleration of customs procedures, improvement of transparency in the procedures, and the like, was adopted in 2014 by all Members, and is expected to be ratified by the Diet in Japan in due course. When the Doha Round negotiations are concluded, it is expected that annual GDP will increase by 1.4% in developing countries and by about 0.4% in developed countries including Japan. Also, as plurilateral negotiations, the Information Technology Agreement (ITA) expansion negotiations, Trade in Services Agreement (TISA) negotiations, and Environmental Goods Agreement (EGA) negotiations are under discussion.

5 What are the negotiations to which attention must be paid in the future?

The Environmental Goods Agreement (EGA) negotiations that were launched in July 2014 are discussing the elimination of tariffs on items including renewable energy, recycling-related products, and environmental monitoring equipment.



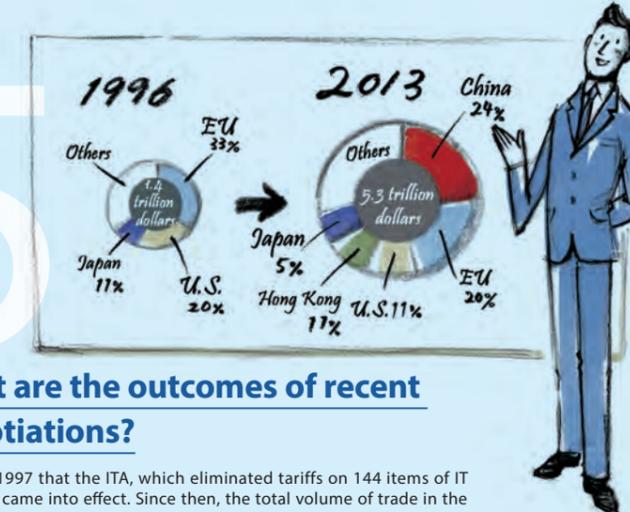
The World Trade Organization (WTO) is an international organization that manages rules of international trade. This may imply to some that the WTO may not have much to do with us as individuals. On the contrary, as products and services are now being traded on a global scale, the WTO can also be said to be an organization that is directly connected to our daily lives and businesses.

What are the two main principles that all Members must observe?

The two main principles of the WTO are “most-favoured-nation treatment” and “national treatment”. It is specified that all members of the WTO must be treated equally, and domestic goods and imported goods must be treated equally. In other words, a free trade system can be maintained and promoted by prohibiting discrimination based on country of origin and discrimination against imported goods.

As for the main activities of the WTO, the first is the kind of trade negotiation called a “Round negotiations,” in which all Members participate. Until now, nine Rounds have been held including those during the GATT era, through which tariffs have been reduced gradually, and trade rules other than tariffs have been developed.

Furthermore, negotiations at the Doha Round which were launched in 2001 are still in progress. The following pages introduce the Information Technology Agreement (ITA) expansion negotiations that are of great importance for Japan. In addition, the following pages also explain trade dispute settlement, which is as important a function of the WTO as trade negotiation.



6 What are the outcomes of recent negotiations?

It was in 1997 that the ITA, which eliminated tariffs on 144 items of IT products, came into effect. Since then, the total volume of trade in the targeted items covered by the ITA has been steadily increasing, and currently the total volume of trade is about fourfold that of 1997. Needless to say, the needs for IT products themselves have grown, but it is believed that such an increase in the volume of trade in these same items covered by the ITA is due in large part to the elimination of tariffs.

New type semiconductors

- MCOs (Multi-component ICs)
- MCPs (Multi-chip ICs)

Digital multifunction machines and printers

- Digital multifunction machines
- Printers (network connectable type) etc.

Medical devices

- MRI (Magnetic resonance imaging systems)
- CT scanning systems etc.

System products

- Building Energy Management Systems and Home Energy Management Systems (BEMS and HEMS)



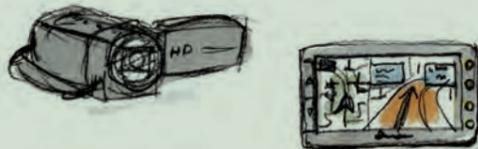
Notable fields in elimination of tariffs

“The reason why information technology is the focus”

On IT products that are familiar to us, there are products that tariffs are imposed and those that are not. Currently, discussions are underway that aim to eliminate tariffs on about 200 items.

Digital AV devices

- Digital Video Cameras
- DVD players, HDD players, and BD players
- Game machines, portable game machines etc.

**Manufacturing machines and apparatus**

- Machines and apparatus for the manufacture of semiconductor wafers
- Machines and apparatus for the manufacture of flat panel displays

Communication devices

- Base stations
- ETC (Electronic Toll Collection Systems)
- Car navigation systems, GPS receivers etc.

Components of optical products

- Sheets and films made of polarizing materials (for liquid crystal display panels etc.)
- Lenses, filters etc.

Dedicated raw materials

- Ink cartridges
- Photoresists for semiconductors etc.

Currently, Information Technology Agreement (ITA) expansion negotiations to also eliminate tariffs on products such as those mentioned above are under discussion at the WTO as an important subject. The ITA was originally defined as an agreement regarding elimination of tariffs on IT products and came into effect in 1997. The scope of the ITA is 144 items including semiconductors, PCs, cell phones, and digital cameras (for still images), and currently, 78 countries and regions participate in the ITA. Surprisingly, the percentage of the volume of trade for items covered by the ITA is about 15% of the total volume of world trade, which demonstrates that these agreements have significantly contributed to the elimination of tariffs in world trade. However, 18 years have passed since these agreements came into effect, and during the intervening time period, IT-related products have advanced remarkably, as one can imagine. In such a situation,

products that could not have been envisioned at that time have been launched one after another, and demands for an increase in the number of items covered by the ITA and the clarification of the scope of the ITA have been growing in the industrial communities of each country.

Important cases that greatly affect the credibility of the WTO

In response to such situations, countries including Japan and the U.S. took the lead in launching the ITA expansion negotiations in 2012. Initially, China requested the removal of the sensitive items (items that are treated cautiously, taking into account the domestic effects of the elimination of tariffs) and rarely sought compromise, which disrupted the negotiations at times, but currently, persistent dialogue between 53 countries and regions that participate in the negotiations are in progress. An

agreement on the elimination of tariffs on about 200 of products under the ITA expansion is being sought. Why is the ITA expansion meaningful and important? One answer could be that the expansion of trade in IT products improves economic productivity in each country. Making advanced IT products available to the world surely generates various benefits. Also, in the field of IT, we must remember the so-called global supply chains in which many enterprises in different countries play their own important role, such as component manufacturer, intermediate product manufacturer, or final product manufacturer, in the creation of a single product. IT is precisely the field where multilateral free trade can demonstrate great value. The ITA expansion negotiations are also important in building and ensuring credibility of the WTO itself, which is one of the foundations of free trade. It will continue to attract attention.

Conclusion of the negotiations will benefit the entire world

Industry associations have been working closely with the national government toward conclusion of the Information Technology Agreement (ITA). We asked Mr. Michikazu Chihara, who chairs the Trade Policy Committee at the Japan Electronics and Information Technology Industries Association (JEITA, one of those industry organizations, about JEITA's activities and his thoughts.



---Japan is one of the countries leading the ITA expansion negotiations. What are the purposes and benefits of Japan doing so?

Chihara: Many items slated for inclusion under the expanded ITA, including the latest types of semiconductors, digital televisions, and digital game consoles, are products where Japanese companies can really play to their strengths. According to one estimate, Japan's exports of items on the proposed list amounted to about nine trillion yen in 2013, so the impact of tariff elimination could be huge.

Furthermore, many manufacturers are producing at overseas plants in Southeast Asia and elsewhere. Because these local plants import components and modules, increasing the number of tariff-free items will also help to reduce costs.

---What is JEITA doing to promote conclusion of the negotiations?

Chihara: We, including myself, have been visiting the head office of the

World Trade Organization (WTO) in Geneva, other countries' administrative agencies, and foreign embassies in Japan in order to directly explain the significance of ITA expansion to those officials in charge of negotiations and other relevant parties. In doing so, we need to remember that not everyone is familiar with information technology (IT). We always try to explain carefully how IT assists daily life and business. For example, we point out that digital audiovisual devices can now be used as Internet terminals, and that digital game consoles can be utilized for education as well as entertainment.

Given the Internet's ubiquitous presence in today's world, IT products have become a driving force indispensable to business innovation and a higher quality of life. I believe that expanded ITA coverage will spur further such innovation and change, which is a great motivation for me.

We are already working with other industry associations in Europe, the United States and elsewhere on a multifaceted approach that includes holding symposiums. We plan to continue focusing on and emphasizing the value of ITA expansion.

Considering a mechanism for periodical reviews

---What are your hopes for the ITA, and what challenges do you foresee?

Chihara: Reaching agreement is not easy because of the direct connection

**Mr. Michikazu Chihara
Trade Policy Committee Chairman
Japan Electronics and Information Technology
Industries Association**

Michikazu Chihara assumed his current post in 2012 after being engaged in international sales at the NEC Corporation. Currently, he serves as senior manager of NEC Corporation's Policy Planning and Foreign Relations Department.

between inclusion or exclusion of every item under discussion to each country's potential benefit. However, it is certainly extraordinary that a list created 18 years ago is still used being without modification in a field as rapidly evolving as IT. I think that fostering that shared recognition may be the very key to concluding the negotiations.

Looking to the future, it will be important to incorporate into the agreement a mechanism to periodically review ITA coverage, and discussion has already begun in that regard. In addition, there is the free ride issue, whereby countries remaining outside the ITA enjoy zero tariffs on their exports while keeping in place their own tariff barriers.

As industry members, we plan to continue working with the Ministry of Economy, Trade and Industry to support ITA expansion while keeping a sharp eye on these issues. This is because, as I explained earlier, free trade in IT products not only profits enterprises but will also help to advance the world economy and society as a whole.



Last year, Mr. Kazuo Hirai, JEITA Vice Chairman, handed Mr. Roberto Carvalho de Azevêdo, Director-General of the WTO, a joint statement produced by 81 industry associations from around the world requesting furtherance of the negotiations on ITA expansion.

CLICK!

Japan Electronics and Information Technology Industries Association

Breaking rules will not be allowed!

“Dispute Settlement Function to Enhance Effectiveness of WTO Agreements”

In setting rules, it is important to prepare responses in cases where the rules are not followed. The WTO has adopted a two-tiered judicial system to settle violations and measures in question.

In the arena of international trade, where national interests are at stake, it is not rare for a country to confront another country. One of the WTO's important roles is to separate such confrontations from politics and objectively settle the confrontations based on agreed procedures and rules. The specific flow of dispute settlement procedures is as described below. If measures in question arise, first, bilateral consultations are held. If the opinions of both sides are in opposition, a panel is established. Moreover, if either side appeals the panel's rulings, an examination by the WTO Appellate Body is convened. If the WTO Appellate Body also confirms the violations, the WTO recommends corrective measures to the countries that took measures inconsistent with the Agreements. The Agreements provide for a scheme where if the corrections are not carried out, the countries that filed petitions can take countermeasures, which enhance the effectiveness of the Agreements.

Japan has also pointed out many unfair measures taken by other countries

Actually, the Members actively utilize this judicial function of the WTO, and 488 cases have been subject to dispute settlement between 1995 and 2014. Not only the U.S. and the EU but also developing countries including India, Brazil, and Argentina have filed many cases.

Needless to say, Japan has been a party in multiple cases, filing 18 cases. 16 out of the 18 cases have already been concluded, and 15 out of these 16 cases have been settled in favor of Japan. The next page describes several examples of these 15 cases. You will find that both cases have had a great effect on Japan's economy.

The Ministry of Economy, Trade, and Industry (METI) provides a system for trade dispute settlements in cooperation with other ministries. Also, a Subcommittee under the Industrial Structure Council under the jurisdiction of METI is working on manifold efforts, including the

preparation of the "Report on Compliance by Major Trading Partners with Trade Agreements" which analyzes issues on trade policies as well as measures taken by other countries, and urges the rectification of these issues. This is because it is especially important to request correction of measures inconsistent with the Agreements, not only for the removal of the disadvantages for our country but also for the sound functioning of the WTO Agreements.

Consult METI if you have trouble with problems or violations relating to the WTO Agreements!

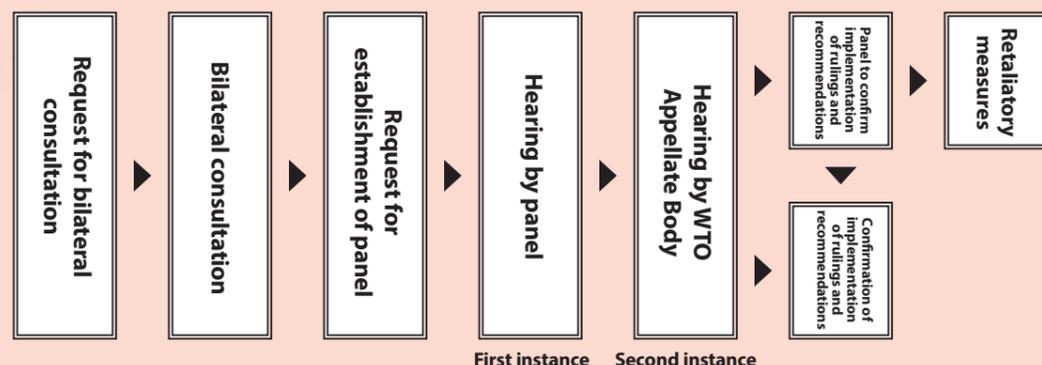
METI has established a consultation counter on our website regarding unfair trade measures by foreign governments.

E-mail : multi-trade@meti.go.jp
 FAX : 03-3501-1450
 Main Office: 1-3-1 Kasumigaseki, Chiyoda-ku, Tokyo 100-8901
 Office for WTO Compliance and Dispute Settlement, Multilateral Trade System Department, Trade Policy Bureau, Ministry of Economy, Trade and Industry

CLICK! Web consultation counter (Japanese version)



Flow of WTO Dispute Settlement Procedures



Occurrence of problems

Trade Disputes Where Japan Has Been Involved

Case 1 China's export restrictions on rare earths

Rare earths are used in high-tech products. China had implemented export quotas on exhaustible natural resources for a long time and drastically cut its export ceiling in the latter half of 2010. In response to this, Japan, the U.S., and the EU requested consultation with China but could not reach a satisfactory resolution. In 2012, a panel was established. The countries, including Japan, aimed to clarify that export restrictions on developed natural resources are prohibited and that even if protection for resources were not

prohibited, non-discriminatory policies would be required. The countries, including Japan, appealed that the arbitrary measures of natural resources supplier countries could not be accepted. In 2014, the final report submitted by the WTO Appellate Body fully supported the claims of Japan. We can say that this WTO decision is also important in restraining the protectionism that is prevailing in natural resources supplier countries.

Claim was supported



Claim was supported

Case 2 The EU's invalid tariff measures on IT products



The EU, which participates in the ITA, is obliged to keep tariffs on products covered by the ITA at 0%. However, the EU imposed tariffs on multifunction machines as well as PC monitors that should have received duty-free treatment. Therefore, Japan, together with the United States and Chinese Taipei requested dispute settlement by the WTO in 2008. The main details of the claims were that multifunction machines should not be treated the same as analog copy machines and that even if a monitor is equipped with terminals that can be connected

to a DVD player, the monitor must be treated as a PC monitor. In other words, these countries, including Japan, claimed that tariff measures should be considered while also taking technological advances into consideration. Consequently, the reports that a panel submitted in 2010 fully supported the claims of these countries, including Japan. As a matter of fact, the annual export volume from Japanese companies to the EU is about 240 billion yen. Even this single number demonstrates the significant outcome of the WTO decision.

CLICK! 2014 Report on Compliance by Major Trading Partners with Trade Agreements -WTO, EPA/FTA and IIA- and "METI Priorities Based on the 2014 Report on Compliance by Major Trading Partners with Trade Agreements"



Voices of METI spokespersons

Formation of Rules of Trade in Pursuit of Future Development

When one hears the word "trade," many may think of items being imported and exported. However, services that are intangible are also internationally traded. These traded services include a wide range of services, not only typical services such as finance, transportation, and distribution but also those where a portion of the manufacturing process is outsourced. The WTO classifies a specific form of international service transaction as 'Trade in Services' and sets rules for it in the General Agreement on Trade in Services (GATS). The WTO services negotiations have been carried out to liberalize trade in services, which means to lower or to eliminate the barriers hindering the business operators of each country in supplying their services.

Currently, I am responsible for working on Trade in Services Agreement (TiSA), which is under negotiation between 51 interested states and regions that are WTO Members to achieve a higher level of liberalization of trade in services than that provided for in GATS. As such services are becoming increasingly important globally, the environment surrounding trade in services has been turbulent due to changes in society and advances in technology. While making an effort to understand the actual status of trade in services as much as possible, we aim to make rules which will boost Japanese industry in its overseas expansion and lead to its future development.



Our department has been in charge of establishing rules of trade through WTO and the Economic Partnership Agreement (EPA) negotiations such as TPP, monitoring how each country is implementing trade measures in various WTO committees, and settling disputes in the WTO. In addition, we compile an annual report on unfair trade policies and measures taken by major nations within the WTO, EPA/FTA, and IIA domains - the Report on Compliance by Major Trading Partners with Trade Agreements.

Asuka Kawauchi
 Deputy Director, Multilateral Trade System Department, Trade Policy Bureau, METI*7